Hedge Fund Analysis

Water and Power Employees' Retirement Plan

Period Ended: December 31, 2018

Capital Markets Review

The hedge fund industry experienced its worst quarter since the third quarter of 2011 as measured by HFRI's Fund Weighted Composite Index, capping off a difficult year for the majority of hedge fund strategies with a return of -5.3%. Equity Long/Short ("ELS") funds in particular were a source of poor relative returns, with losses across this subset of managers wiping out all the alpha earned by this category in the prior three quarters of the year. Specifically, the HFRI Equity Hedge Index fell -8.3% for the quarter and finished the year with a return of -6.9%. The subset of ELS strategies that RVK follows closely produced better results than their broader peer group, though dispersion across managers and trading styles was especially high in the fourth quarter. Recent data from prime brokers indicate potential crowding in the equity hedge fund space, and momentum reversals were significant drivers of ELS underperformance during the quarter.

Across the Fund of Hedge Fund ("FoHF") universe, HFRI data indicate the average FoHF lost -4.4% during the fourth quarter, finishing the year down -3.5%. The FoHFs RVK tracks closely produced marginally better results than their broader universe, but still suffered losses for the quarter and the year with very few exceptions. Managers that had previously rotated away from traditional long biased ELS strategies and toward more market neutral and higher gross leverage strategies generally produced better fourth quarter results than those that maintained heavy ELS exposure. These higher leverage, market neutral strategies in the macroeconomic, quantitative, and fundamental stock picking spaces generally aided FoHF managers during the year, though few strategies were standouts in the fourth quarter specifically.

Multi-strategy managers generally produced better returns during the fourth quarter and for 2018 than their FoHF competitors. Many of the multi-strategy managers tracked by RVK ended the year with marginal gains, as merger arbitrage provided a reasonably good source of positive returns for the year, and most managers were also able to add additional value through credit and equity trading strategies.

Hedge Funds Composite

As of December 31, 2018, the Hedge Funds Composite held ~$697 million in assets between the Retirement and Health Plans, or ~5.1% of Plan assets. This compares to the target allocation of 5.0%.

The Hedge Funds Composite posted negative absolute returns and underperformed the ICE BofAML 3 Month US T-Bill Index+3% (1 Month Lag) by 253 basis points during the fourth quarter. Blackstone Hope St. returned -1.25% and underperformed the ICE BofAML 3 Month US T-Bill Index+3% (1 Month Lag) by 253 basis points. MS Convergent returned -2.70%, but is undergoing liquidation and as such no longer represents a meaningful portion of the Hedge Funds Composite.

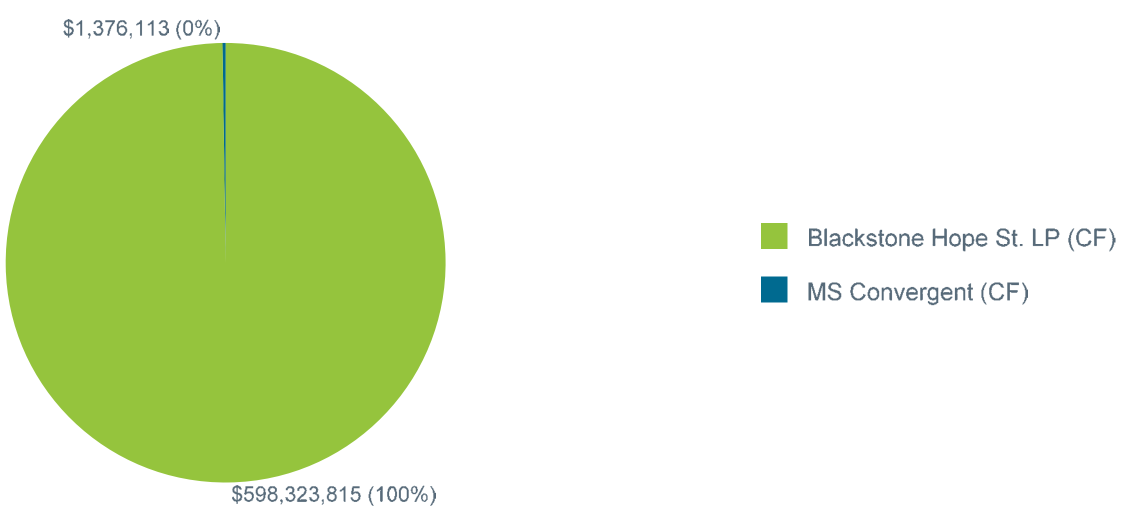
Performance shown is net of fees.

Comparative Performance

	QTD	FYTD	1 Year	3 Years	5 Years	7 Years	2017	2016	2015	Since Incep	Inception Date
Hedge Funds	**-1.25**	**-0.46**	**1.18**	**0.90**	**1.39**	**3.23**	**3.92**	**-2.30**	**1.24**	**2.64**	**03/01/2007**
ICE BofAML 3 Mo US T-Bill Index+3% (1 Mo Lag)	1.28	2.55	4.85	3.99	3.61	3.46	3.81	3.33	3.02	3.88	
Difference	-2.53	-3.01	-3.67	-3.09	-2.22	-0.23	0.11	-5.63	-1.78	-1.24	
Blackstone Hope St. LP (CF) (Lagged-1 Mo)	**-1.25**	**-0.45**	**1.03**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**1.51**	**09/01/2017**
ICE BofAML 3 Mo US T-Bill Index+3% (1 Mo Lag)	1.28	2.55	4.85	3.99	3.61	3.46	3.81	3.33	3.02	4.66	
Difference	-2.53	-3.00	-3.82	N/A	N/A	N/A	N/A	N/A	N/A	-3.15	
MS Convergent (CF) (Lagged-1 Mo)	**-2.70**	**-1.89**	**3.36**	**3.10**	**N/A**	**N/A**	**7.39**	**-1.27**	**-1.34**	**1.77**	**03/01/2014**
ICE BofAML 3 Mo US T-Bill Index+3% (1 Mo Lag)	1.28	2.55	4.85	3.99	3.61	3.46	3.81	3.33	3.02	3.63	
Difference	-3.98	-4.44	-1.49	-0.89	N/A	N/A	3.58	-4.60	-4.36	-1.86	

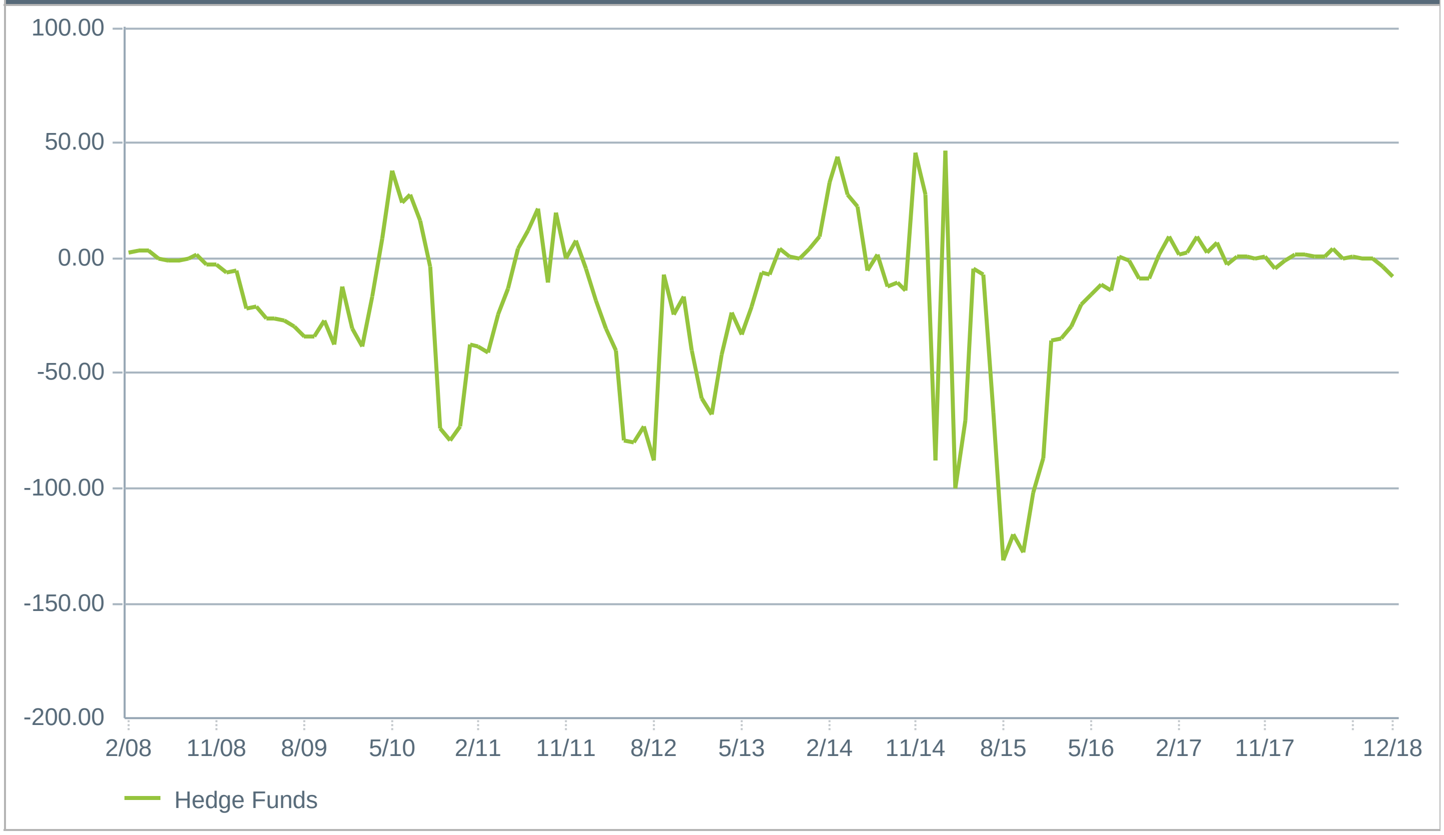
Portfolio Allocation by Manager

December 31, 2018 : $599,699,928

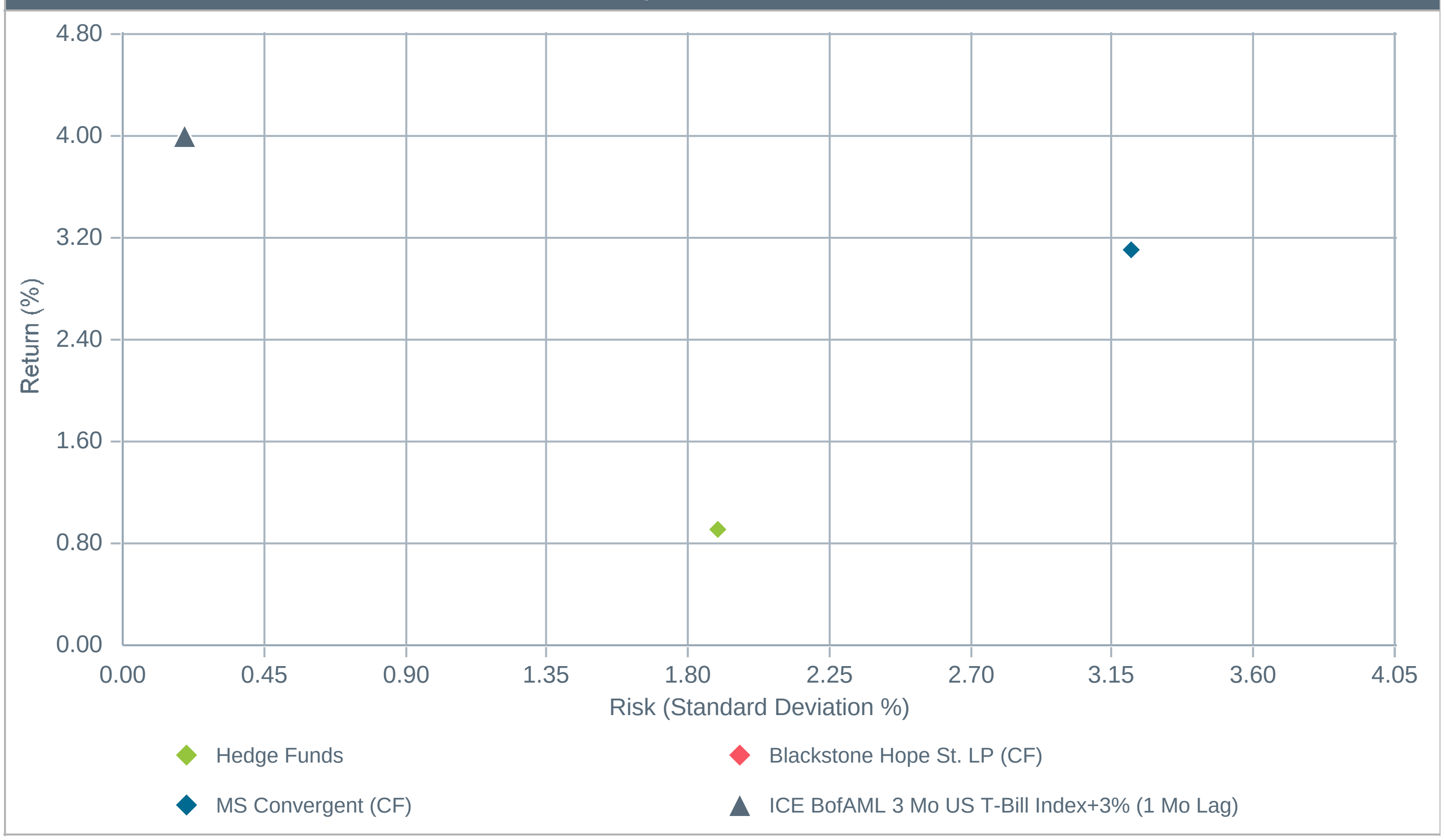


Performance shown is net of fees and representative of the Retirement Plan. Performance shown is annualized for periods greater than one year. Inception dates shown represent the first full month following initial funding. Fiscal year ends 06/30. Allocations shown may not sum up to 100% exactly due ot rounding.

12-Month Rolling Beta vs. ICE BofAML 3 Mo US T-Bill Index+3% (1 Mo Lag)



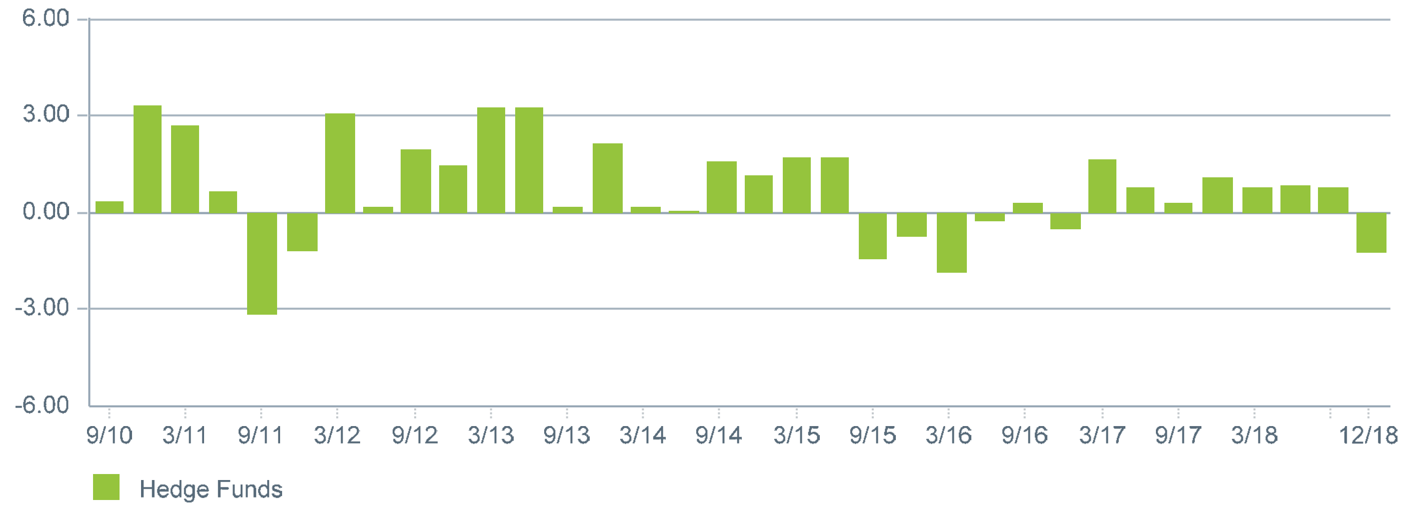
Risk/Return - 3 Years



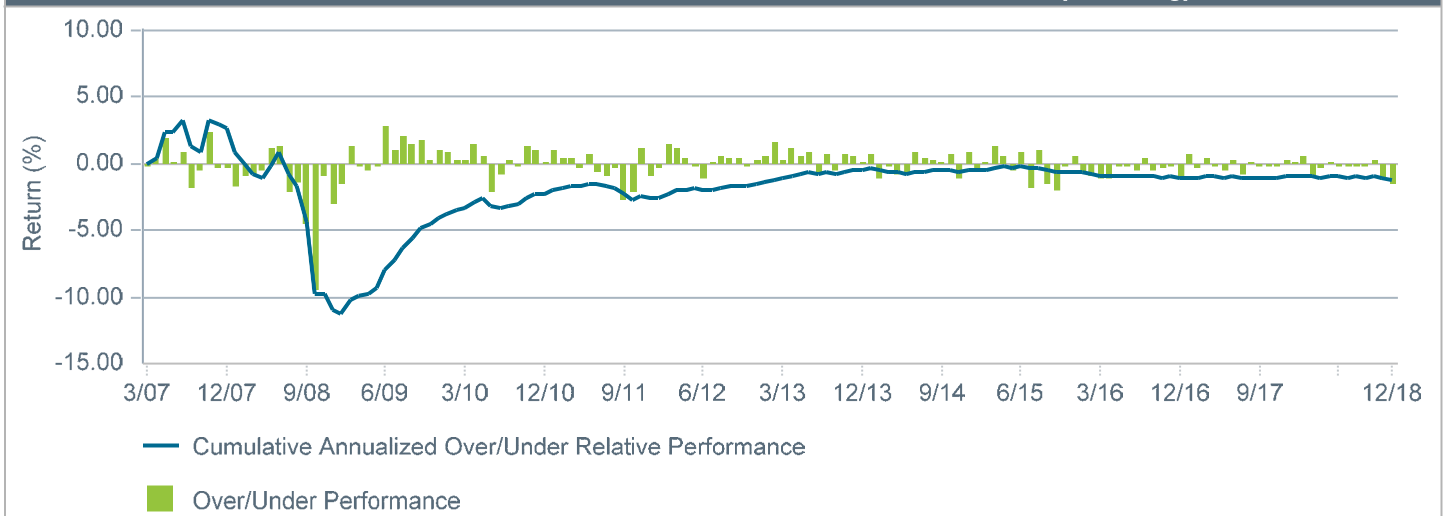
Performance shown is net of fees and representative of the Retirement Plan. Funds with less history than the specific time period will not appear in the chart.

RVK

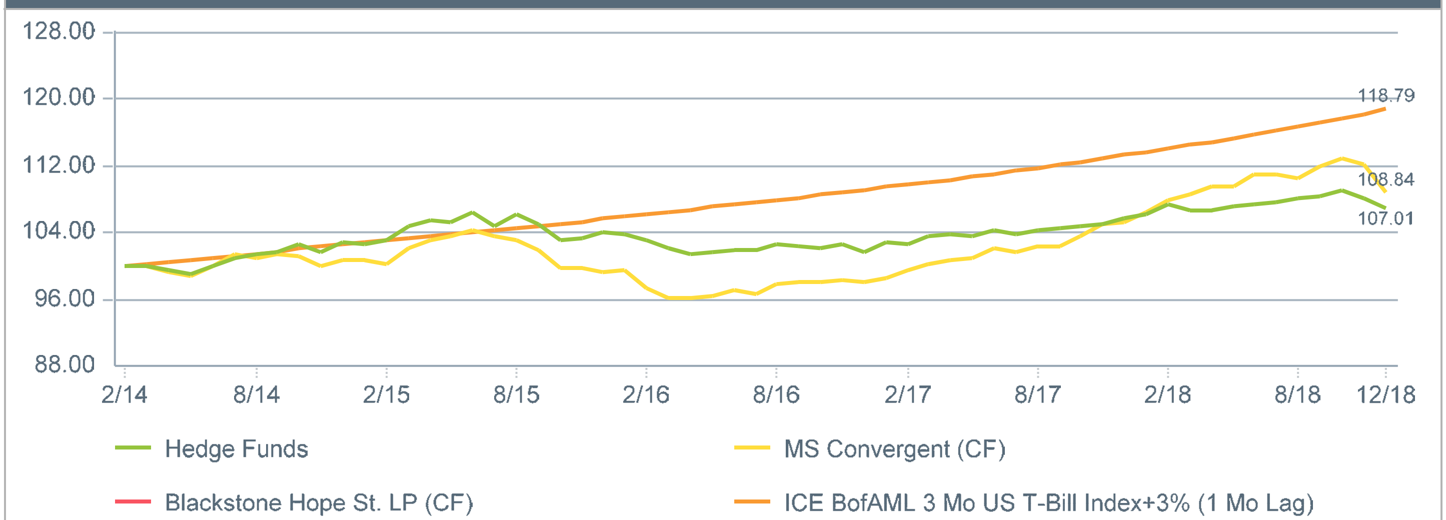
Quarterly Returns



Relative Performance vs. ICE BofAML 3 Mo US T-Bill Index+3% (1 Mo Lag)



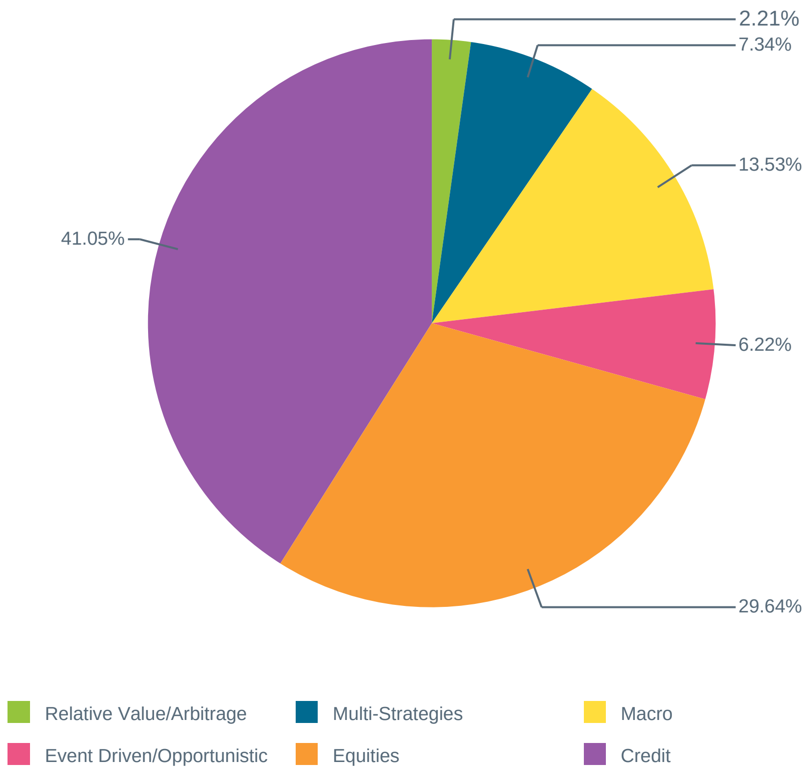
Growth of $100



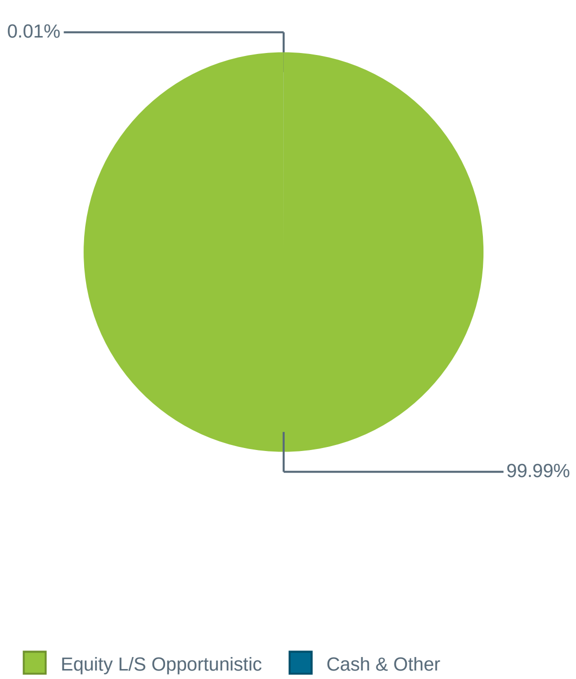
Performance shown is net of fees and representative of the Retirement Plan.

RVK

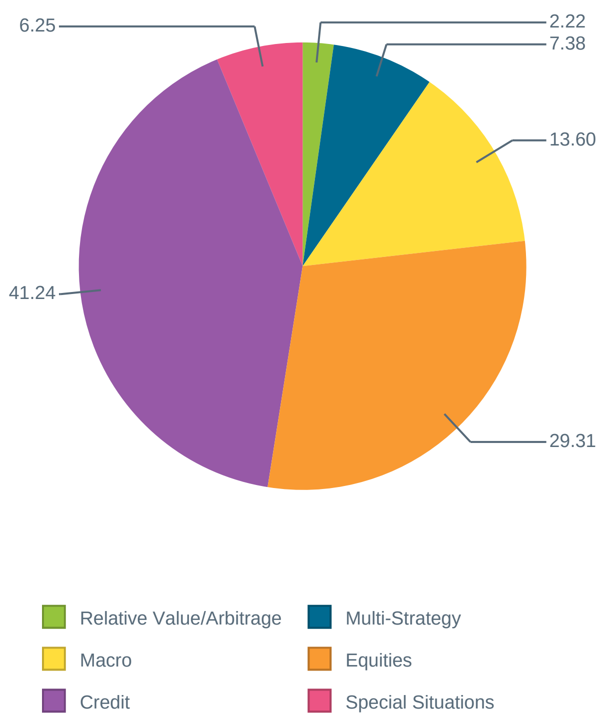
Hedge Funds Composite



MS Convergent (CF)



Blackstone Hope St. LP (CF)



Allocations shown may not sum up to 100% due to rounding.

Blackstone Hope Street Fund LP (CF)
Hedge Funds Statistics

As of December 31, 2018

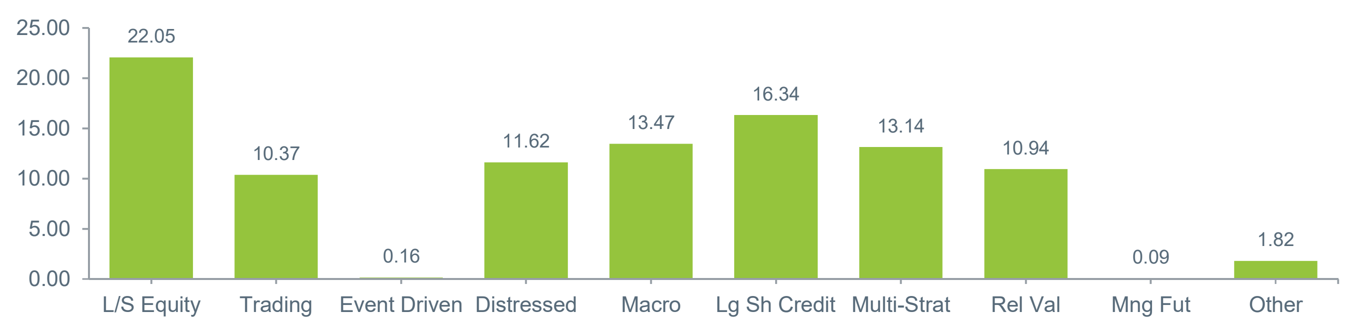
Investment Strategy

BAAM manages a custom discretionary Hope Street fund on behalf of LADWP. Hope Street is a broadly diversified portfolio designed to provide downside capital protection and achieve the portfolio objective over a full market cycle. The portfolio is designed to maintain low volatility vs. the global equity markets.

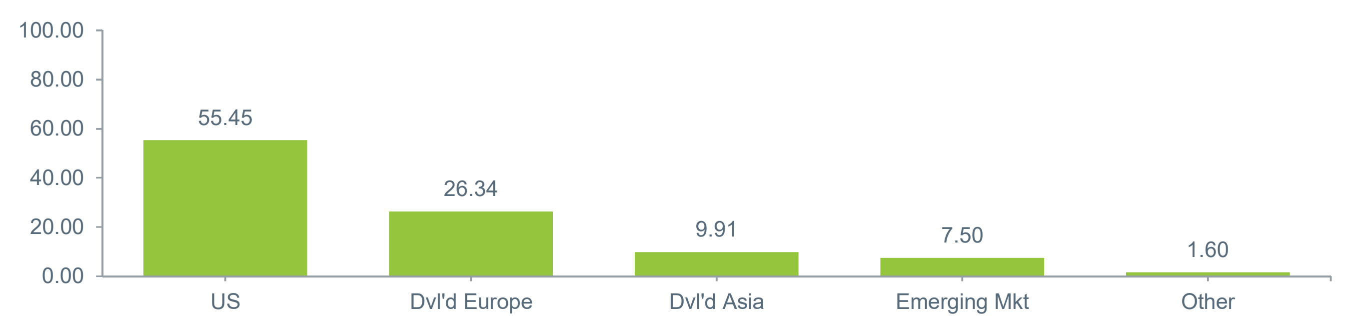
Firm Statistics	
Year Firm Established	1990
Firm AUM ($M)	$80,005
Percentage Employee Owned	47.00%

Fund Statistics	
Fund Inception	2017
Fund Size ($M)	$708
Number of Underlying Managers	36
Maximum Weighting of an Underlying Manager	5.50%
Current Leverage (Assets/Equity)	3.48
Annual Manager Turnover	N/A
Annual Management Fee %	0.6
Performance Fee %	12
Hurdle %	4.4
Initial Lock-Up Period	No
Redemption Frequency	Daily
Notification Period	60 Days

Strategy Allocation (%)



Geographic Allocation (%)



Strategy Allocation to "Other" includes cash, hedging, and other expenses. Geographic Allocation to "Other" consists of Canada. Investment profile data shown is provided by the investment manager and is as of the most recently available quarter end. While California Govt. Code sec. 7514.7 requires certain fund information be disclosed to the public, sec. 6254.26(a) exempts from public disclosure certain contract terms, such as management fees expressed as a percentage, unless the fund manager consents to release such information. In this case, BlackStone has consented to release this information to the public.

Fund statistics shown are provided by the investment manager and are as of the most recently available quarter end.
Actual management and performance fees or other terms may vary based on the invested assets or other manager concessions.

Allocation by Strategy

Strategy	Allocation (%)
Equities	**29.3**
Equity Manager 1	3.2
Equity Manager 2	2.5
Equity Manager 3	2.3
Equity Manager 4	0.1
Equity Manager 5	3.3
Equity Manager 6	0.7
Equity Manager 7	4.1
Equity Manager 8	4.1
Equity Manager 9	2.8
Equity Manager 10	2.3
Equity Manager 11	1.4
Equity Manager 12	1.2
Equity Manager 13	0.8
Equity Manager 14	0.5
Credit	**41.2**
Credit Manager 1	4.3
Credit Manager 2	1.9
Credit Manager 3	2.5
Credit Manager 4	5.2
Credit Manager 5	3.0
Credit Manager 6	2.9
Credit Manager 7	6.1
Credit Manager 8	3.8
Credit Manager 9	3.7
Credit Manager 10	3.6
Credit Manager 11	4.3
Multi-Strategies	**7.4**
Multi-Strategies Manager 1	5.2
Multi-Strategies Manager 2	2.2
Macro	**13.6**
Macro Manager 1	13.6
Special Situations	**6.3**
Special Situations Manager 1	3.6
Special Situations Manager 2	2.7
Arbitrage	**2.2**

Quarterly Turnover

Strategy	New	Terms/Trans
Equities	2	0
Credit	0	0
Multi-Strategies	0	0
Macro	0	1
Event Driven/Opportunistic	0	0
Special Situations	0	0
Arbitrage	1	0
Cash and Other	0	1
Total Quarterly Turnover	**3**	**2**

Investment Strategy

Morgan Stanley AIP seeks to provide superior performance with minimal prinicipal loss over a complete investment cycle. The fund attempts to achieve its objective principally through investing in a diversified portfolio of investment funds managed by third party investment strategies who employ a variety of investment strategies.

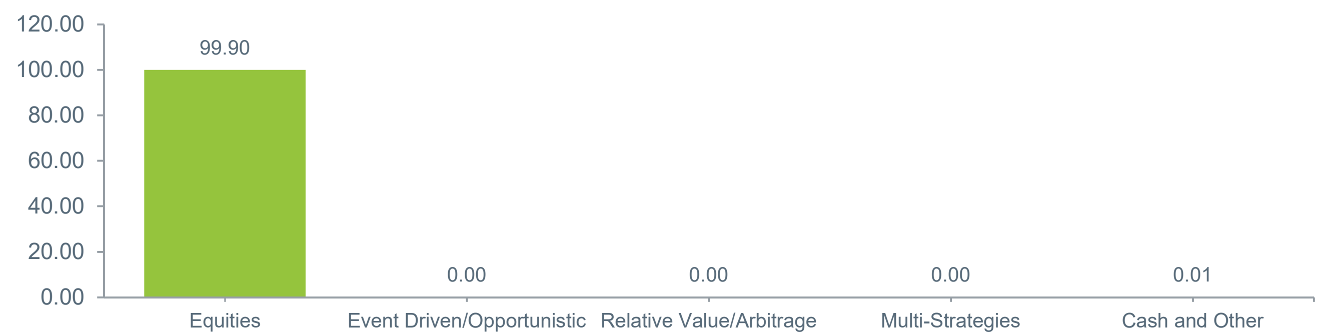
Firm Statistics

Year Firm Established	2000
Firm AUM ($B)	$25
Percentage Employee Owned	0.00%

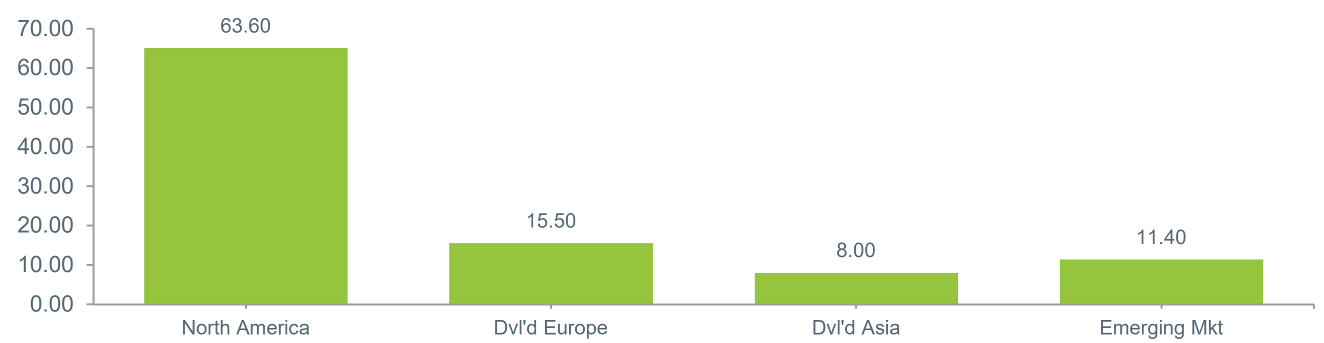
Fund Statistics

Fund Inception	2014
Fund Size ($M)	$3
Number of Underlying Managers	1
Maximum Weighting of an Underlying Manager	100%
Current Leverage (Assets/Equity)	None
Annual Manager Turnover	11.00%
Annual Management Fee	None
Performance Fee	No
Hurdle	No
Initial Lock-Up Period	No
Redemption Frequency	Monthly
Notification Period	N/A

Strategy Allocation (%)



Geographic Allocation (%)



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RVK

Allocation by Strategy

Strategy	Allocation (%)
Equities L/S Opportunistic	**0.0**
Event Driven Equity	**0.0**
Equity L/S High Hedge	**99.9**
Equity L/S High Hedge Manager 1	99.9
Statistical Arbitrage	**0.0**
Mortgage Arbitrage	**0.0**
Multi-Strategy	**0.0**
Cash and Other	**0.1**
Cash and Other	0.1

Quarterly Turnover

Strategy	New	Terms/Trans
Equities L/S Opportunistic	0	0
Event Driven Equity	0	0
Equity L/S High Hedge	0	0
Statistical Arbitrage	0	0
Mortgage Arbitrage	0	0
Multi-Strategy	0	0
Cash and Other	0	0
Total Quarterly Turnover	**0**	**0**

Morgan Stanley is currently undergoing liquidation. Millennium International, Ltd. is being redeemed quarterly and should be completely redeemed by 01/2019.

Strategy	Definition
Relative Value	
Convertible Arbitrage	Seeks to profit from pricing anomalies between a company's convertible securities and its equity. A manager buys the convertible instrument (often a bond) and sells short the common stock.
Fixed Income/Credit Arbitrage	Exploits pricing inefficiencies between fixed income securities with similar characteristics, such as corporate vs. Treasury yield spreads. Offsetting long and short positions typically neutralize exposure to interest rate risk, isolating the pricing discrepancy.
Equity Market Neutral	Exploits relative pricing inefficiencies between equity securities while neutralizing market exposure. Typically the net (total long and short) portfolio exposure is balanced so that there is no directional bias to equity sectors or styles.
Event Driven	
Risk/Merger Arbitrage	Invests in the shares of companies involved in mergers, acquisitions, and LBOs. A common merger arbitrage strategy is to buy the equity of the "target" and sell short the equity of the "acquirer," making a profit if the deal outcome (and timing) is in line with the manager's positioning.
Distressed Securities	Managers pursuing this strategy invest in bank debt, corporate debt, trade claims, common stock, and warrants of companies either in bankruptcy or having financial or operational issues. The goal is to anticipate how corporate events (such as bankruptcies, reorganizations, distressed sales, and restructurings to reverse negative trends) will impact the underlying securities.
Opportunistic	
Global Macro	Employs a "top down" approach to invest across a wide range of global asset classes based on forecasted changes in global economies, political fortunes, or global supply and demand for resources.
Short Selling	Taking short positions in stocks in anticipation of a price decline, based on a view that the stock is overvalued, company earnings will disappoint, or there is a market selloff approaching.
Emerging Markets	Generally long-biased equity or debt positions that seek to capitalize on the undervaluation of companies in developing countries, which tend to have higher inflation and volatile growth.
Long/Short Equity	Core holding of long equities hedged to varying degrees with short positions in stocks or derivatives.

PORTLAND CHICAGO NEW YORK